

**REFORM OF SASKATCHEWAN'S
PROVINCIAL SALES TAX**

**Honourable Lorne H. Hepworth
Minister of Finance
February 20, 1991**

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INTRODUCTION

On April 1, 1991, Saskatchewan will begin the process of harmonizing the provincial sales tax with the federal Goods and Services Tax (GST).

The Government's decision will achieve five important objectives:

- provide the financing for the protection of Saskatchewan farmers through programs like GRIP and NISA;
- reduce complexity and confusion at the cash register for consumers and businesses;
- reduce duplication and overlap in government sales tax administration;
- improve Saskatchewan's competitiveness in a changing world economy; and,
- continue Saskatchewan's protection of the family.

The Government will undertake harmonization in two stages.

The first stage will begin April 1, 1991, with the broadening of the provincial sales tax base to include most goods, including restaurant meals, clothing and snack foods. Also for 1991, the high income Surtax will be increased to 15%.

Commencing in April, the Government will introduce the Saskatchewan Family Tax Credit which will protect lower income families from the additional tax resulting from harmonization. The first instalment of this credit will be paid as part of the federal GST Credit in April of this year. For a lower income family with two children, the combined federal-provincial payment will equal \$245 each quarter, or \$980 per year.

The second stage of harmonization will occur on January 1, 1992, when the Governments of Canada and Saskatchewan will participate in a single administration of both sales taxes, with a common tax base and a common set of tax rules. This will ensure consistent tax treatment for businesses and consumers and will result in significant administrative and compliance savings for all.

Harmonization will also permit the removal of provincial sales tax from business investment, thereby creating a significant economic boost for the Province. To ensure that this will not lead to windfall gains for larger businesses, 1992 will also see increases in corporate tax rates.

Over the next few months, the Government will continue to consult with the public on issues arising from the decision to harmonize the provincial sales tax with the GST. The objective is to ensure that this measure is introduced fairly and with a minimum of disruption.

BACKGROUND

Introduction of the Federal GST

The federal government repeatedly attempted to reform the previous federal sales tax - a tax that was widely criticized as an impediment to economic activity, unreliable and complex.

In 1987, the federal government began its sales tax reform with the examination of a number of replacement options, including a National Sales Tax that would have involved both federal and provincial governments in the creation of a single, uniform sales tax. A federal-provincial committee studied the feasibility of the proposal for two years.

In 1989, the federal government unilaterally halted the examination of the National Sales Tax. In the budget that followed, it announced its intention to implement a federal-only Goods and Services Tax at a rate of 9%, effective January 1, 1991.

Saskatchewan and all other provincial governments expressed concern over the initial federal GST proposal, since:

- the GST increases complexity and compliance costs for both businesses and consumers and leads to a duplication of government administration;
- the 9% tax rate would have created short term economic problems; and,
- the Province's finances were not adequately protected from the application of the GST.

Representations by the provinces and others prompted the federal government to reduce the GST rate from 9% to 7%, thereby removing most of the negative transitional economic impacts. Provincial governments were also able to achieve greater protection from any adverse financial effects of the proposed tax through improved rebates for municipalities, universities, schools and hospitals and through the negotiation of provincial exemptions from the GST.

Despite the improvements that have been made in the design of the GST, its implementation on January 1, 1991 marks the first time in Canada that two sales taxes are operating side-by-side at the retail level.

Problems Arising from the GST

The introduction of a federal-only GST created a number of problems in Saskatchewan.

1. Increased Complexity for Consumers and Businesses

The GST is a multi-staged sales tax that affects all businesses, including retailers. Over 130,000 Saskatchewan businesses must deal with the GST at all stages of the production-distribution cycle. Almost half of provincial businesses affected are farming operations.

Saskatchewan's sales tax is remitted by over 35,000 businesses almost all of which were not federal sales tax collectors prior to the GST's introduction.

Businesses that are registered under the provincial sales tax are also required to report under the GST. This complicates a number of the businesses' operations, including pricing, inventory valuation and bookkeeping. They must keep track of two sets of tax rules and interpretations, two tax base definitions, two reporting and payment procedures and must deal with two tax administrations.

For consumers, the lack of harmony between the two sales taxes means that a large number of goods and services have a different tax status under each system. This complicates the application of taxes at the till and leads to confusion for consumers. All 50 countries which levy a GST-style tax have abandoned the retail sales tax to avoid the complications of a dual sales tax environment.

2. Increased Costs for Business

The structural differences between provincial retail sales taxes and the GST require businesses to maintain separate reporting and accounting systems for each tax.

The Canadian Federation of Independent Business estimates that the average cost for a business to administer a retail sales tax is about \$1,380 per year. Since over 35,000 businesses currently remit provincial sales tax on behalf of the Province, the administrative savings from harmonization could be in the tens of millions annually.

The expense of operating in a dual sales tax environment is unproductive and reduces the competitiveness of our economy. It is a cost, for example, that could be re-directed toward productive investment and job creation.

3. Higher Government Administration Costs

Two sales taxes operating side-by-side require a duplication of administrative effort. Given the current fiscal pressures on both orders of government, opportunities to remove duplication and improve administrative efficiency must be explored.

For these reasons, the Government of Saskatchewan opposed the introduction of the GST. It tried to convince the federal government to defer implementation of the GST and return to the National Sales Tax discussions. Regrettably, the federal government chose to push ahead and implement a federal-only tax.

Saskatchewan Response

In response to the GST, the Government has focused its efforts on minimizing the impact of the tax on provincial residents by undertaking a series of initiatives.

Last summer, the Minister of Finance appointed a GST Advisory Committee to study the impact of the GST on Saskatchewan. Following its deliberations, the Committee strongly recommended that Saskatchewan harmonize its sales tax with the GST at the earliest opportunity to remove the confusion and duplication created by a dual sales tax environment.

The Government also appealed directly to the federal government on issues of particular concern to Saskatchewan. It convinced the federal government to significantly expand the list of farm inputs on which the GST will not apply. It also represented the interests of small business in developing consistent administrative considerations under which the two sales taxes could be levied.

Last October, in accordance with the recommendations of the Advisory Committee, Saskatchewan agreed to remove the GST from the provincial sales tax base, at an annual cost of \$25 million.

The Government has continued to review the advice of the Advisory Committee since the release of its report to the Minister of Finance. It has also listened to the views of provincial residents during the recent pre-budget consultation process.

These consultations support the Government's position that a dual sales tax environment is unacceptable. In response, the Government is introducing a sales tax that will be fully harmonized with the GST effective January 1, 1992.

HOW SASKATCHEWAN'S NEW SALES TAX WILL WORK

When Saskatchewan's sales tax becomes fully harmonized with the GST on January 1, 1992, it will become a multi-staged tax. While businesses throughout the production-distribution cycle, including retailers, will charge provincial tax on their domestic sales, they will also be able to claim a refundable credit - known as an "input tax credit" - for any tax paid on their purchases of goods and services used in the course of doing business.

Saskatchewan's new sales tax will therefore permit the full recovery of sales tax paid by commercial operations, thereby improving their competitiveness domestically and internationally.

MULTI-STAGE OPERATION OF HARMONIZED SALES TAX

	Purchase Price	Selling Price		Tax on Selling Price	Input Tax Credit	Net Tax Paid
PRODUCER		\$200		\$28	--	\$0
MANUFACTURER		\$200 \$500		\$70	\$28	\$0
RETAILER		\$500 \$600		\$84	\$70	\$0
CONSUMER		\$600		--	--	\$84
Total tax remitted to government						\$84

- Although businesses pay tax on their inputs at each stage in the production-distribution chain, all tax is removed from inputs through the input tax credit mechanism.
- The result is that the consumer is ultimately responsible for the tax.

The harmonized tax will apply to a broad range of goods and services. However, there are some goods and services which will be "zero-rated", or free from tax, including:

- basic groceries;
- prescription drugs;
- medical devices;
- most agricultural products;
- major purchases by farmers, such as combines and fertilizer; and,
- exported goods and services.

Others goods and services will be "exempt" from the direct application of the tax, including:

- most health and dental care services;
- most educational services;
- long-term residential rents;
- sales of used housing;
- day care services;
- legal aid services;
- municipal transit;
- membership dues in charities and non-profit organizations; and,
- most goods and services supplied by charities and many supplied by non-profit organizations.

The operation of the tax is less straightforward for those businesses whose sales fall into more than one category. For example, a convenience store will face the added complexity of distinguishing between taxable and tax-free goods.

This situation is a result of the federal design of the GST. The Province acknowledges that this is caused by federal attempts to reduce or eliminate the tax levied on family essentials and on non-commercial agencies such as charities. In agreeing to harmonize with the GST, the Province must accept these design considerations.

FAIRER TAX SYSTEM

In 1988, the Government published a document entitled **A Dialogue on Saskatchewan Income Tax Reform** which set out the principles of fairness, simplicity and equity as the basis for future provincial tax policies. This document was followed in 1989 by **Saskatchewan's Tax System for the 1990s** which discussed both income tax and sales tax reform.

These documents show that the Government perceives fairness as a progressive tax system which treats individuals with similar incomes similarly. Fairness must also recognize family circumstance in determining ability to pay provincial tax.

Harmonization of the provincial sales tax, by itself, would increase the taxes paid by lower income families. This is contrary to the Government's perception of fairness. Therefore, the Province is introducing the Family Tax Credit which further strengthens Government support for the family.

Family Tax Credit - New Support for the Family

The Family Tax Credit will provide annual tax savings of \$200 per child for lower income families. It will commence in April and will be paid to eligible families in four instalments during the year - April, July, October and January. The Credit will be modelled after the federal GST Credit.

The Credit will be phased out at the rate of 5% of family income exceeding a \$24,355 threshold - families having two dependent children with incomes up to \$32,355 will benefit from the Credit. This threshold is the same one used by the federal government for the GST Credit and it will be indexed annually for inflation.

The Credit, which is refundable, will be available to over 104,000 families in the Province. This will include families on social assistance who do not incur an income tax liability.

Family Tax Credit Joins Current Reduction

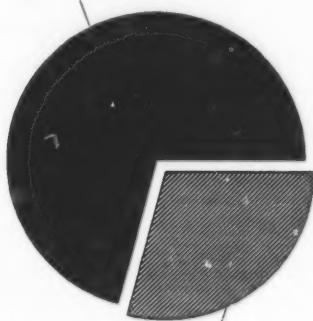
In 1985, Saskatchewan established support for the family as an essential element in undertaking personal income tax reform. Support for the family continues to be a fundamental factor directing Saskatchewan tax policy.

In 1987, the Province restructured the Saskatchewan Tax Reduction to target greater tax savings to lower and middle income families. The current Reduction provides about \$52 million annually in provincial tax savings to 335,000 tax filers.

The Family Tax Credit, when combined with the Saskatchewan Tax Reduction, builds upon the principle of protecting the family. These measures will provide Saskatchewan residents with an annual tax saving of \$87 million. More than half of this amount will go to tax filers with dependants, though this group comprises less than one third of all tax filers.

DISTRIBUTION OF SASKATCHEWAN
TAX FILERS

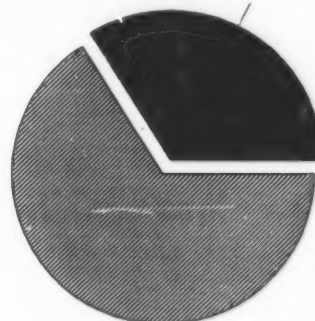
With No Dependants 71%



With Dependants 29%

DISTRIBUTION OF REDUCTION AND
FAMILY TAX CREDIT BENEFITS

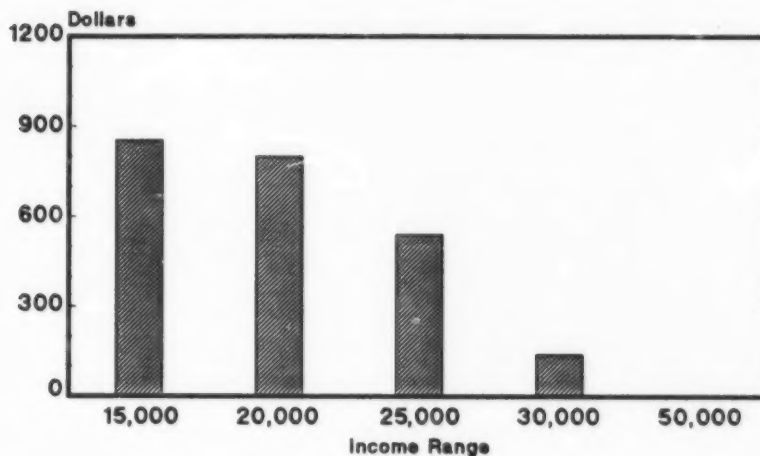
With No Dependants 34%



With Dependants 66%

The Government recognizes the cost incurred in raising children and has structured the Family Tax Credit to protect lower income families. The combined benefit of the Reduction and the Family Tax Credit is equal to \$800 for a family of four earning \$20,000 annually.

VALUE OF REDUCTION AND FAMILY TAX CREDIT
Tax Savings For Married Tax Filer
With Two Children



ECONOMIC IMPACT OF HARMONIZATION

Competitiveness of Saskatchewan Businesses

Saskatchewan's economy continues to be largely dependent upon primary industries which are capital intensive and export oriented. It is subject to international market forces and relies heavily upon investment dollars from sources that reside both within and outside provincial borders.

Saskatchewan's current sales tax is levied at the retail level but is paid by both individuals and businesses. The application of provincial sales tax to business purchases can result in a significant disincentive to prospective investors in Saskatchewan and can disadvantage existing provincial businesses.

For example, when a Saskatchewan-based company purchases a computer for \$5,000, it will pay \$350 in provincial sales tax. The tax paid must either be reflected in the price the business charges for its product or be absorbed by the business as an expense. This could result in lower wages, lost job opportunities and reduced investment.

Harmonization Benefits

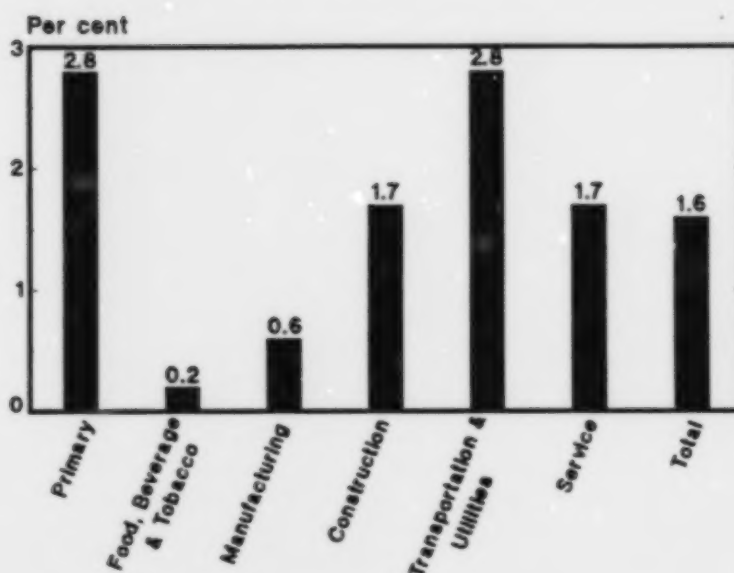
By harmonizing with the GST, businesses in Saskatchewan will benefit from having all the tax paid on their inputs purchased in Saskatchewan refunded to them through the input tax credit mechanism.

They will also benefit from reduced compliance costs resulting from a single tax administration. This will create a stronger business sector, a more efficient allocation of resources and an improved ability to attract non-resident investors to Saskatchewan.

Saskatchewan's real Gross Domestic Product (GDP) is expected to grow by 1.6% due to harmonization. This is in addition to the expected 2.3% increase in real GDP due to the effects of federal sales tax reform.

The following graph shows that the increase in real output due to harmonization will vary depending on the nature of the industry. Since the cost of capital will decrease due to the removal of the current sales tax, industries which are relatively capital intensive like agriculture, mining, transportation and utilities, will experience the largest increase in output.

GROWTH DUE TO HARMONIZATION
Change in Real Gross Domestic Product



The increase in output by new and existing firms will translate into an increase in domestic production which, in turn, means an increase in Saskatchewan employment. The long term gains in employment for Saskatchewan are estimated to be over 5,000 jobs.

This expansion in output and employment does not factor in the cost savings that Saskatchewan firms will receive by not having to comply with separate federal and provincial tax systems.

IMPACT ON RURAL SASKATCHEWAN

Lower Provincial Sales Taxes

The Government's decision to harmonize the provincial sales tax will permit the complete removal of sales tax from the farming operation. A lower tax bill on farm inputs will ultimately translate into improved cash flows, greater financial flexibility and more economically viable farming operations.

The current provincial sales tax provides about 130 special exemptions from tax for goods consumed in farming operations. Over \$150 million per year in provincial sales tax relief is currently provided on goods like farm machinery, farm chemicals and farm fuel.

However, because the current provincial tax is a retail sales tax that is levied on a broad range of business and personal goods, farmers are still required to pay provincial tax on a large number of farm inputs, including trucks, computers, building materials and general purpose tools.

Farmers also have to pay provincial sales tax on many inputs that go into other business operations that are undertaken to diversify farming operations. For example, the development of a commercial seed cleaning business located off the farm requires the payment of sales tax on the purchase of the seed cleaning equipment and materials used in the construction of the facility.

Simpler Compliance for Farmers

Although many people view the federal GST as being too complex, it is now firmly in place. Most farmers have already registered in the GST system and have begun to modify their accounting procedures to accommodate the tax.

Harmonization of the two taxes therefore will not increase the complexity of taxation but will reduce it. A single sales tax administration having common rules, interpretations and filing periods is simpler than two separate tax systems operating side-by-side.

Farm Exemptions Remain

Although all farm inputs are eligible for input tax credits, the federal government recognized the views of the Government of Saskatchewan and others that major farm inputs should be free from GST at the time of purchase. Therefore, under a fully harmonized tax system, many of the items on the farm input exemption list of the current provincial sales tax will remain tax free.

Major farm input purchases will be on this list, including such items as:

- tractors 60 PTO HP or more;
- swathers;
- combines;
- discers;
- cultivators;
- seeders;
- grain bins;
- augers;
- rockpickers;
- fertilizers;
- feed (20 kg or more);
- seed;
- pesticides; and,
- herbicides.

Farm inputs that are not specifically tax free at the time of purchase will be eligible for full input tax credits. This will include all federal and provincial sales taxes on farm fuels as well as other purchases used in farming operations.

Strengthening the Rural Economy

One of the main advantages of a GST-style tax, with its input tax credit mechanism, is that diversification opportunities are enhanced.

With the removal of the current provincial sales tax on business inputs, costs will decrease. This will encourage diversification activity and strengthen economic growth in rural areas at a time when it is much needed.

TRANSITION PERIOD: 1991

Harmonization will occur in two stages. Therefore, 1991 becomes a year of transition.

Under stage 1 of harmonization, Saskatchewan's sales tax base will be expanded, effective April 1, 1991, to include many goods which are currently tax exempt. This will bring Saskatchewan's sales tax base substantially in line with the GST treatment of most goods. It will reduce the complexity for businesses in the administration of two sales tax systems, as Saskatchewan's treatment of these goods will be similar to that of the GST.

Goods which are currently exempt and which will become taxable on April 1, 1991 include:

- books, magazines, periodicals and newspapers, including subscription purchases of these items;
- clothing and footwear, including adults' clothing and footwear selling for less than \$300 and children's clothing and footwear;
- electricity for residential use (farms will continue to be exempt);
- meals, including prepared foods and beverages sold in a form suitable for immediate consumption, either where sold or elsewhere;
- natural gas for residential heating (farms will continue to be exempt);
- non-prescription drugs and medicaments for human consumption (prescription drugs for human and animal consumption, veterinary medicaments, and non-prescription drugs for animal consumption will continue to be exempt);
- pet food;
- snack foods, candies and carbonated beverages (basic groceries will continue to be exempt); and,
- tobacco products (the sales tax on tobacco will be in addition to the tax currently levied under The Tobacco Tax Act).

These changes simplify the application of the federal and provincial sales taxes for the retail sector beginning April 1, 1991. Virtually all products sold in department and convenience stores will be taxed consistently under both tax systems.

As part of the transition, the Family Tax Credit for lower income households, equal to \$200 per child, will also commence in 1991. Quarterly payments of the Credit will start in April and will be received in conjunction with the federal GST Credit.

The current commission structure provided to Education and Health Tax and Liquor Consumption Tax collectors is 7% of the first \$300 of tax collected per month, plus 1% of the balance to an annual maximum of \$5,000.

The GST Advisory Committee recommended that the commission structure be changed to provide increased benefits to small businesses without increasing the total cost of commissions.

Effective with the April, 1991 tax returns, the commission structure will be changed to 10% of the first \$250 of tax collected per month, plus 1% of the balance to an annual maximum of \$1,800.

During the remaining months of 1991, the Governments of Saskatchewan and Canada will finalize the details of a harmonized federal-provincial sales tax system. The transition period will permit the Province to continue its consultations on harmonization and will allow businesses the opportunity to prepare for the new tax system.

FINANCIAL IMPACT FOR THE GOVERNMENT

In order to finance the Province's contribution to the recently announced farm safety net programs, the provincial sales tax rate will remain at 7% and other tax changes will be introduced. These measures will result in incremental revenue of \$126.3 million in 1991-92 and \$181.1 million in 1992-93.

FINANCIAL SUMMARY

	<u>1991-92</u>	<u>1992-93</u>
• Sales Tax Harmonization at 7%	\$140.2M	\$185.0M
• Corporate Tax Increases	3.8	15.2
• Other Tax Adjustments	11.6	11.6
• High Income Surtax Increase to 15%	5.7	4.3
Total Harmonization Revenue	\$161.3M	\$216.1M
Family Tax Credit	(35.0M)	(35.0M)
Net Revenue	\$126.3M	\$181.1M

ADMINISTRATIVE POLICIES

As announced on October 3, 1990, the Saskatchewan sales tax treatment of coupons, discounts, bad debts and refunds was changed, effective January 1, 1991, to ensure common treatment with the GST. This was recommended by the GST Advisory Committee and the initiative has simplified the application of the tax for businesses and consumers. The cost of this initiative is \$3 million annually.

Effective January 1, 1992, Saskatchewan's sales tax will be fully harmonized with the GST. This will ensure that registrants have a common set of procedures to follow in the collection and remittance of the provincial sales tax and the GST.

For example, the reporting and remittance periods for the provincial sales tax will become identical to those of the GST. Registrants will be able to report their provincial sales tax collections and provincial input tax credits at the same time as they report their GST. The combined reporting and remittance periods will reduce administrative costs for businesses.

Other administrative practices, such as the small traders' threshold, registration requirements, interest and penalty provisions and input tax credits will also become the same as those provided by the GST.

The Governments of Saskatchewan and Canada will jointly operate the harmonized sales tax. For 1992, the federal government will conduct all operational functions except the audit function which the Province will direct. To assist Saskatchewan residents in dealing with the harmonized sales tax, Revenue Canada will establish a regional office in Saskatchewan.

The Governments of Saskatchewan and Canada have also committed to examine the possibility of establishing an independent commission that would administer the harmonized sales tax after 1993.

OTHER TAX CHANGES

Corporate Taxes

Effective January 1, 1992:

- the general Corporation Capital Tax rate will increase from 0.5% to 0.6% - this measure will apply to the largest 800 corporations operating in Saskatchewan; and,
- the general Corporation Income Tax rate will increase from 15% to 16% - the small business tax rate of 10% will remain unchanged.

The corporate tax changes will affect only large businesses (with taxable paid-up capital in excess of \$10 million or corporate taxable income in excess of \$200,000 per year). Small businesses will benefit from lower compliance costs and from the removal of tax from inputs. They will not be affected by the corporate tax changes.

For 1991-92, \$3.8 million is expected in additional revenues, rising to \$15.2 million when the measures are applied on a full year's basis.

Personal Income Tax

Effective January 1, 1991, the high income Surtax will increase from 12% to 15%. This measure applies progressively, with the largest tax increases paid by high income earners. For example, an individual earning \$250,000 per year will experience an increase in income tax of over \$1,000, whereas an individual earning \$50,000 will experience an increase of less than \$50.

The increase in the high income Surtax is expected to raise \$4.3 million annually.

Liquor

The Liquor Consumption Tax will be reduced from 10% to 7%, effective April 1, 1991, in order to conform with the provincial sales tax rate.

Liquor Board prices will be maintained through increases in provincial mark-ups.

Tobacco

The sales tax will apply to tobacco products, effective April 1, 1991. This tax is in addition to the tax levied under The Tobacco Tax Act. The tax is calculated on the total price including Tobacco Tax, but excluding the GST.

Effective February 21, 1991, the Tobacco Tax rate will be adjusted on cut tobacco and tobacco sticks. The rate on cut tobacco will be increased to 4.4 cents per gram, while the rate on tobacco sticks will equal the rate levied on cigarettes.

Fuel

The provincial sales tax will apply to fuel, effective January 1, 1992. This will be in addition to the tax levied under The Fuel Tax Act, 1987. It will be calculated on the total price, including Fuel Tax, but excluding the GST.

To ensure that Saskatchewan fuel prices are not adversely affected by the provincial sales tax on fuel, the Fuel Tax will be reduced, effective January 1, 1992, in order to keep the total provincial tax on fuel similar to 1991 levels.

The provincial sales tax paid on fuel purchased by businesses (including farmers) will be eligible for a provincial input tax credit in the same manner as input tax credits are provided under the GST.

Commencing April 1, 1991, the Fuel Tax will apply to fuel consumed in stationary engines. For 1991, a corresponding change will be made to the Education and Health Tax to remove this fuel from the tax base. Fuel consumed in stationary engines will continue to receive the same tax treatment as other fuels subject to the Fuel Tax under a fully harmonized sales tax system.

OUTSTANDING QUESTIONS TO BE ANSWERED**Provincial Sales Tax Base**

There are special considerations that must be examined prior to announcing the precise method of application of the provincial sales tax on particular services, including:

- services with interprovincial implications, such as transportation and travel; and,
- financial services.

The taxation rules for services will be announced in the coming months.

Small Traders' Exemption and Streamlined Accounting Measures

The GST system provides that small traders, with annual sales of taxable goods and services under \$30,000, may elect not to register and collect the tax.

The \$30,000 small traders' threshold will be available to all provincial sales tax registrants, effective January 1, 1992. However, for 1991, it will only be available to suppliers of meals, prepared foods and snack foods because of the unique nature of the industry.

Effective April 1, 1991, suppliers of meals, prepared foods and snack foods who have opted not to collect the GST may also choose to not collect the provincial sales tax. However, if these suppliers decide to collect the GST they must register and collect the applicable provincial sales tax.

The GST also allows certain registrants selling taxable items and non-taxable basic groceries at the retail level to elect to use prescribed streamlined accounting methods. Under these methods, the tax will not be identified on the customer's cash receipt. The registrant will calculate the tax payable using estimated taxable sales determined from purchases of supplies.

The streamlined accounting methods under the GST will be available to eligible provincial sales tax registrants, effective January 1, 1992.

Impact on the Public Sector, Charities, Non-Profit Organizations and Housing

The application of a fully harmonized provincial sales tax to the public sector, charities, non-profit organizations and housing will be reviewed over the next few months. The Government will consult with these agencies and the housing industry to determine the impact of harmonization.

ANNEX A
MEMORANDUM OF UNDERSTANDING
BETWEEN
SASKATCHEWAN AND CANADA

MEMORANDUM OF UNDERSTANDING

BETWEEN: The Government of Canada ("Canada"), represented by the
Minister of Finance

AND: The Government of Saskatchewan ("Saskatchewan"),
represented by the Minister of Finance

WHEREAS Parliament has adopted legislation to establish a tax under Part IX of the Excise Tax Act to be known as the Goods and Services Tax ("GST") effective January 1, 1991, replacing the existing sales tax imposed under the Excise Tax Act;

AND WHEREAS Saskatchewan proposes to recommend to the Legislature of Saskatchewan legislation to amend its consumption tax base in order to make it substantially comparable with the GST tax base ("provincial tax");

AND WHEREAS while Canada is solely responsible for matters relating to GST and ensuring uniform application of the GST across Canada, and Saskatchewan is solely responsible for the provincial tax, it would avoid duplication, reduce administration costs, simplify compliance for vendors and be economically efficient for there to be one administration in the Province of Saskatchewan for the GST and the provincial tax;

AND WHEREAS Canada and Saskatchewan wish to ensure that the reform of their respective sales tax systems contributes to a fair distribution of income among households through the implementation of the federal GST credit and the Saskatchewan Family Tax Credit;

AND WHEREAS Canada and Saskatchewan recognize the importance of close collaboration in establishing a single administration for the GST and the provincial tax;

NOW THEREFORE, Canada and Saskatchewan agree as follows:

- I. (1) In this agreement, "transitional period" will mean the period commencing as of the date of this agreement and ending on December 31, 1991.
- (2) During the transitional period Saskatchewan will recommend to the Legislature of Saskatchewan legislation to establish the provincial tax in two stages; the first stage being the harmonization of the provincial tax base with respect to most goods with the GST base to take effect April 1, 1991 and the second stage being the full harmonization of the provincial tax with the GST (i.e., extension of the provincial tax to include services and real property) to take effect on January 1, 1992.

- (3) During the transitional period, Canada and Saskatchewan will make preparations for the efficient and effective administration of the GST and the provincial tax in Saskatchewan and will each designate senior officials to ensure the orderly establishment of such single administration.

II. (1) Canada and Saskatchewan officials shall prepare each year a plan for the joint administration of the GST and the provincial tax in Saskatchewan. This plan shall be submitted to Saskatchewan and federal Ministers.

- (2) In accordance with the national audit program and recognizing the particular interests of Saskatchewan, Saskatchewan will establish and direct the audit policy for both the GST and the provincial tax in Saskatchewan.

- (3) The audits of the GST and the provincial tax shall be carried out under the overall co-ordination of the regional audit manager who shall be an employee of Saskatchewan. Those audits shall be conducted jointly by a unit comprised of both federal and provincial employees.

- (4) Canada will be responsible for all other aspects of the single administration of the GST and the provincial tax and will carry out such administration in consultation with Saskatchewan.

III. Canada and Saskatchewan shall ensure that members of the public can communicate with and receive available services from the single administration of the GST in Saskatchewan in either official language in accordance with Part IV of the Official Languages Act.

IV. (1) To facilitate the single administration of the GST and the provincial tax, Canada and Saskatchewan will jointly establish a committee to be known as the SALES TAX ADMINISTRATION COORDINATION AND LIAISON COMMITTEE (the 'Committee').

(2) The Committee will:

- a) be the principal forum for monitoring the administration of the GST and the provincial tax;
- b) review the collection and assessment policies of Revenue Canada for Saskatchewan; and,
- c) identify and examine any other issues relating to the single administration of the GST and the provincial tax with a view to ensuring consistency with the GST while responding to particular circumstances in Saskatchewan that may affect the operation of the provincial tax.

- (3) The Committee will report on matters respecting the single administration of the GST and the provincial tax upon the request by the responsible federal or provincial Minister.
 - (4) To assist the Committee in the performance of its functions, as described therein, Canada shall establish an office to provide technical and secretarial support to the Committee.
- V. Saskatchewan and Canada agree to examine the feasibility of an independent body having delegated powers from Parliament and the Legislature of Saskatchewan to administer both the GST and the provincial tax, to be established on or before January 1, 1994.
- VI. (1) Canada will, for permanent employees of Saskatchewan engaged to administer the GST and the provincial tax, offer the same tenure of employment as that enjoyed by employees of Canada, at a level of authority, responsibility, and, as a minimum, at a salary comparable to that received by them at the time of transfer. Canada will also offer permanent employees of Saskatchewan promotion opportunities substantially equivalent to those of other federal employees.

- (2) Saskatchewan will, for permanent employees of Canada engaged to carry out the audits of the GST and the provincial tax, offer the same tenure of employment as that enjoyed by employees of Saskatchewan, at a level of authority, responsibility, and, as a minimum, at a salary comparable to that received by them at the time of transfer. Saskatchewan will also offer permanent employees of Canada promotion opportunities substantially equivalent to those of other Saskatchewan employees.

VII. Canada agrees, at the request of Saskatchewan, to administer, on behalf of Saskatchewan and in a manner consistent with the Tax Collection Agreement with Saskatchewan, the Saskatchewan Family Tax Credit which Saskatchewan will recommend be adopted by the Saskatchewan Legislature. Canada will make the first payments of the said credit in April 1991 or as soon thereafter as it is possible to do so.

VIII. (1) Canada and Saskatchewan will each pay 50% of the costs incurred in the single administration in Saskatchewan of the GST and the provincial tax as determined by the following formula:

$$[(A \times 1.74) \times (B - .02B)]$$

where

A = the average salary of an employee working on the single administration of the GST/provincial tax

B = the number of such employees.

(2) In order to assist Saskatchewan in defraying the costs of employee transfers to Canada as contemplated by this memorandum, Canada will pay to Saskatchewan, on the later of the date of the execution of the detailed agreement referred to in Clause XI below or January 1, 1992, the sum of seven million, five hundred thousand dollars (\$7,500,000.00).

(3) The compensation formula in (1) above may be adjusted by mutual agreement between Canada and Saskatchewan.

IX. Canada and Saskatchewan recognize the importance of maintaining consistency in their tax bases.

X. It is understood that neither Canada nor Saskatchewan will be deemed by reason of having entered into this agreement to have surrendered or abandoned any of the powers, rights, privileges or authorities vested in it, under the Constitution of Canada, or otherwise, or to have impaired any of such powers, rights, privileges or authorities.

XI. Prior to the end of the transitional period Canada and Saskatchewan will enter into a detailed agreement elaborating the principles set out in this agreement, which agreement will provide for the single administration of the GST and provincial tax including, inter alia;

- (a) detailed elements of compensation for administrative costs;
- (b) dispute resolution;
- (c) amendment and termination;
- (d) detailed procedures for coordination, including the determination of the ratio of federal to provincial employees engaged in auditing the GST and the provincial tax;
- (e) the responsibility for conducting litigation relating to the provincial tax; and,
- (f) provisions respecting remittance of provincial tax to Saskatchewan.

This agreement executed in duplicate, in the English and French languages, both texts being equally authentic.